



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

April 3, 2006

Memorandum to Department TSP Coordinators

FROM: Pamela-Jeanne Moran 
Director, Office of Participant Services

SUBJECT: One-Time Reamortization of Loans Missing 2½ or More
Payments

The Thrift Saving Plan is implementing the final phase of its loan default program. This program is mandated by Internal Revenue Service regulations which apply to all 401(k) plans, including the TSP. Essentially, the regulations provide that, at the end of each calendar quarter, plans must identify loan accounts that are missing payments and notify participants that they have until the end of the following quarter to pay the missing amount. If the payments are not made up, the loan balance is declared a taxable distribution; the amount of the distribution is treated as income and may be subject to the 10% early withdrawal penalty. (See "Repaying a Loan" in the booklet, *TSP Loans*.)

The first applicable quarterly default cycle will begin on June 30, 2006. In preparation for this process, on March 31, 2006, we reamortized those loans that were missing 2½ or more payments to give participants a chance to start fresh. As a result, participants have been sent one of the two notices described below.

Notice 1: Approximately 20,000 participants with missing loan payments will have their loans automatically reamortized to a longer term. Although their loan payments will remain the same, the term of the loan will be extended, but not later than the maximum repayment date. A copy of this notice is Attachment 1.

Notice 2: Approximately 16,000 participants will have their loans reamortized to the maximum repayment date possible

under the IRS regulations. However, because we are not changing the loan payment amount, their loans will not be paid off as of that date, and they will have a balloon payment due at the end of the loan term. Participants can submit additional loan payments (directly to the TSP) in order to decrease the amount of the balloon payment. A copy of this notice is Attachment 2.

Agency personnel and payroll offices can assist both groups of participants in two ways. First, if payments erroneously are not being made, they should be started immediately. The Agency Technical Support Staff (ATSS) can provide assistance to payroll offices as necessary. Agency personnel should also remind participants that they can send direct loan payments (in addition to the loan payments made by payroll deductions) if for some reason they get behind on payments. It is the participants' responsibility to ensure that their loan payments are current.

We believe that many participants are in a missing payments status because they are on leave without pay or military furlough and the TSP has not been notified of that status. The notices to the participants direct them to contact their agencies if this is the case. It is extremely important that agencies (or services) promptly submit Form TSP-41 (TSP-U-41), Notification to TSP of Nonpay Status, to the TSP. (You may fax the form to 1-866-817-5023.) This form will ensure that the participant's loan(s) will be suspended and not subject to a taxable distribution due to missing payments. (NOTE: Loan payments cannot be suspended due to LWOP for more than a year unless the participant is on military LWOP.)

Agencies and services are advised that they may receive calls from participants concerning these notices. Our intent is to minimize the impact of the loan default program implementation on those participants who may currently be in a missing payments status. However, as indicated on the loan agreements that they signed, participants are responsible for repaying their loans.

For more information about participants in a nonpay status and the effect on TSP loans, please see TSP Bulletin 04-8, Revision of the booklet *TSP Loans*, dated May 4, 2004. There is also a fact sheet, *Effect of Nonpay Status on TSP Participation*, dated May 2005. These publications are available on the TSP web site.

Questions concerning this project should be directed to the Education and Training Staff at the Board (202-942-1450). Pay-

roll offices should contact the Agency Technical Support Staff for assistance in starting (or restarting) loan payments. The ATSS telephone number is 1-888-802-0179.

Attachments

Attachment 1

LC/U 905 v.1 - Without a balloon payment; Loan will be **re-paid before maximum payoff date**

Dear Participant:

The Thrift Savings Plan (TSP) has reamortized (i.e., adjusted the terms of) your loan to give you additional time to repay it. This **one-time-only** reamortization was made because you have fallen behind on your loan payments by at least 2½ payments. It does **not** change your regular payment amount; it adjusts your remaining number of payments. The results of your reamortization are:

TSP Loan:	Repayment Frequency:
Loan Interest Rate:	Remaining Number of Payments:
Principal Outstanding:	Payment Amount:
Remaining Finance Charge:	
Remaining Balance (Principal + Finance Charge):	

The unpaid interest on the payments you have missed has been added to the Remaining Finance Charge. Beginning with your next loan payment, your payments will be applied entirely to interest until you make up any back interest you still owe. After that, your payments will once again be applied to principal and interest.

If you are in leave without pay status, follow the instructions in the enclosed Fact Sheet, Effect of Nonpay Status on TSP Participation. Also, if your next earnings and leave statement does not reflect your full loan Payment Amount, contact your payroll office immediately. If you miss any additional payments and do not make them up, your loan may go into default. This means that the TSP will have to declare a taxable distribution of the outstanding loan balance (including accrued interest) and you will have to pay income tax (and possibly an early withdrawal penalty tax) on the entire amount of the taxable distribution.

Note: If you want to reamortize your loan again to increase your payment amount and pay off your loan sooner, you can do so through the TSP Web site or by contacting the TSP.

If you have questions, call the ThriftLine number shown below. Callers outside the United States and Canada

should call (404) 233-4400 (not a toll-free number). The TSP Service Office hours are Monday through Friday 7 a.m. to 9 p.m. eastern time. You can also write to the TSP Service Office. Please include your daytime telephone number and your entire Social Security Number on all correspondence. **Note:** If you are a member of the uniformed services, do not provide your Defense Switched Network (DSN) telephone number.

Attachment: Loan Payment Coupon
Fact Sheet, Effect of Nonpay Status on TSP
Participation

Attachment 2

LC/U 906 v.1 - Loan will **not** be **repaid by maximum payoff date**; a balloon payment will be needed at the end of the term

Dear Participant:

Thrift Savings Plan (TSP) records indicate that you are not up-to-date on your loan payments. To assist you in repaying your loan, the TSP has made a one-time-only reamortization (i.e., adjustment to the terms) of your loan. It does **not** change your regular payment amount; however, your loan will not be repaid in full by the repayment deadline and you will owe a final payment that is larger than your usual monthly payments. The results of your reamortization are:

TSP Loan:	Repayment Frequency:
Loan Interest Rate:	Remaining Number of Payments:
Principal Outstanding:	Payment Amount:
Remaining Finance Charge:	
Remaining Balance (Principal + Finance Charge):	
Estimated Final Payment as of Repayment Deadline	(mm/dd/yy):

The unpaid interest on the payments you have missed has been added to the Remaining Finance Charge. Beginning with your next loan payment, your payments will be applied entirely to interest until you make up any back interest you still owe. After that, your payments will again be applied to principal and interest. To avoid having a large final payment, you can request another reamortization from the TSP to increase each payment amount.

If you are in leave without pay status, follow the instructions in the enclosed Fact Sheet, Effect of Nonpay Status on TSP Participation. Also, if your next earnings and leave statement does not reflect your full Payment Amount, contact your payroll office immediately. If you miss any additional payments and do not make them up, the TSP will have to declare a taxable distribution of the outstanding loan balance (including accrued interest) and you will have to pay income tax (and possibly an early withdrawal penalty tax) on the entire amount of the taxable distribution.

If you have questions, call the ThriftLine number shown below. Callers outside the United States and Canada should call (404) 233-4400 (not a toll-free number). The TSP Service Office hours are Monday through Friday 7 a.m. to 9 p.m. eastern time. You can also write to the TSP Service Office. Please include your daytime telephone number and your entire Social Security Number on all correspondence. **Note:** If you are a member of the uniformed services, do not provide your Defense Switched Network (DSN) telephone number.

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